

Caixin China General Manufacturing PMI™

Operating conditions improve again in December

Summary

The health of China's manufacturing sector continued to improve in December, with firms registering a further strong rise in output. However, the rate of new order growth eased to a three-month low, and export sales rose only slightly. At the same time, confidence towards the 12-month business outlook remained relatively weak, and staffing numbers stagnated. Nonetheless, a further rise in new work prompted firms to expand their purchasing activity and inventories, which in turn placed further strain on supply chains. Operating expenses rose for the fourth month in a row, albeit marginally, which underpinned a renewed increase in selling prices.

The headline seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.5 in December, down from 51.8 in November. The latest figure remained consistent with a modest improvement in the health of the sector, with conditions now strengthening in each of the past five months. That said, the latest PMI reading was the lowest seen since September.

Weighing on the headline index was a softer upturn in total new business at the end of the year. The rate of new order growth was modest, having eased to a three-month low. Panel members suggested that demand both at home and abroad had improved, though export work continued to rise only slightly overall.

The sustained rise in new orders underpinned a further increase in production volumes during December. The rate of expansion remained strong overall, despite edging down for the second month in a row.

Staffing levels were unchanged in December, as a number of firms mentioned efforts to contain costs and boost efficiency. As a result, the level of outstanding business rose again, albeit at a weaker pace.

Purchasing activity rose for the sixth month in a row, though the rate of growth cooled from November. This, in turn, led to an increase in inventories of purchased items. Inventories of finished goods also expanded at the end of the year, which some companies linked to expectations that demand conditions will improve in the months ahead.

Firmer demand for inputs placed further pressure on supply chains, with average lead times for purchased items lengthening again in December.

At the same time, manufacturers registered a further rise in operating expenses, which was attributed to greater raw material and staffing costs. However, the rate of input price inflation was marginal and much softer than the series average. Nonetheless, the further increase in costs led companies to raise their selling prices for the first time since June, and at a modest rate.

Although Chinese goods producers generally expect output to rise over the next year, concerns over ongoing trade tensions, environmental protection policies and intense market competition meant that overall sentiment remained weaker than the historical trend.

Key Points

- Production continues to increase strongly...
- ... but new order growth softens, and employment stagnates
- Selling prices increase for the first time in six months

stabilize the labor market. The output subindex remained at a relatively high level, despite dipping slightly. The employment subindex fell marginally from the previous month, to the border between contraction and expansion.

3) As production expanded at a relatively fast pace, input deliveries, order backlogs and inventories all saw positive changes. The subindex for suppliers' delivery times rose to its highest point since April, despite remaining in contractionary territory. The measure for backlogs of work continued its fall from October's recent high, but remained in expansionary territory. The subindex for inventories of purchased items rose further into positive territory, but the gauge for stocks of finished goods also rose and returned to expansionary territory.

4) Behind the good performance was an improvement in business confidence. The gauge for future output expectations rebounded, albeit remaining at a relatively low level in recent years.

5) Industrial product prices went up. Both the gauges for input costs and output prices rose slightly. Company profitability is likely to improve, as the gauge for output prices returned to expansionary territory.

Comment

Commenting on the China General Manufacturing PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

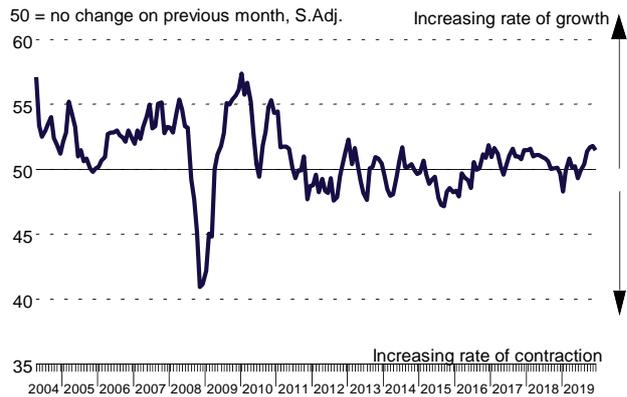
"The Caixin China General Manufacturing PMI stood at 51.5 in December, down from 51.8 in the previous month, indicating a moderate expansion of the manufacturing sector.

- 1) Domestic demand expanded, but less quickly than in the previous two months. While the subindex for total new orders fell further in December from its high in October, the gauge for new export orders fell more slowly, suggesting growth in domestic demand is slowing more rapidly.*
- 2) Production expanded at a relatively quick clip, helping*

Continued...

"China's manufacturing economy continued to stabilize in December, although the expansion in demand was not as strong as the previous two months. Positive changes included improved business confidence, and strengthened willingness to increase production and inventories, which are beneficial to the job market. Subdued business confidence was a major factor behind the economic slowdown this year. As the phase one trade deal between China and the U.S. has sent out positive signals, there is room for a recovery in business confidence, which should be able to help stabilize the economy."

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Sources: IHS Markit, Caixin.

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Notes to Editors:

The Caixin China Report on General Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 manufacturing companies. The panel is stratified by company size and Standard Industrial Classification (SIC) group, based on industry contribution to Chinese GDP. For the purposes of this report, China is defined as mainland China, excluding Hong Kong SAR, Macao SAR and Taiwan.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights applied: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Historical data relating to the underlying (unadjusted) numbers and seasonally adjusted series are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About Caixin:

Caixin Media is China's leading media group dedicated to providing financial and business news through periodicals, online content, mobile applications, conferences, books and TV/video programs.

Caixin Insight Group is a high-end financial data and analysis platform. The group encompasses the monthly Caixin China Purchasing Managers' Index™, components of which include the Caixin China General Manufacturing PMI™ and Caixin China General Services PMI™. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

For more information, please visit www.caixin.com and www.caixinglobal.com.

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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to <https://ihsmarkit.com/products/pmi.html>

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